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ABSTRACT

This paper explores the range of sources of funding for further education (FE) provision in the United Kingdom through maintained colleges. A description of the pre-1990 procedures, including the resource assumptions of central government funding of further education in the United Kingdom is included. An indication is given of the advice proffered by the local authorities to central government with regard to FE. Both the political question of how much to spend (or rather the degree and grounds for year-to-year variation), and the shifting relationships between the key players of central and local government, are discussed. Among the other items discussed are: (1) the forecasting of FE expenditure; (2) identifying the need to spend for FE; (3) the new machinery that has been put into place for determining central government funding; and (4) national issues that occasionally arise and influence public sector funding. Finally, other sources of income are highlighted in terms of major clusters of educational endeavors that have distinctly different resource demands; and other income generation such as fees paid by students and employers to publicly subsidized programs, full-cost courses, or self-funding activities. (GLR)

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R J Kedney & M C Fletcher

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About the authors

Mick Fletcher Assistant Director (Training & Consultancy), The Staff College. After five years as a teacher in further education involved with general studies, management education and adult provision, joined local authority administration as Assistant Education Officer with Hereford and Worcester LEA. Responsible for planning and budgeting for eleven colleges and the management of several special programmes concerned with youth unemployment and adult training. Joined The Staff College in 1986.

Bob Kedney Associate Tutor, The Staff College.
Has been the principal of one of the larger colleges of further and higher education, a senior officer and adviser to a number of local authorities and a head of department in a college and a secondary school. He has served on a number of national bodies, including the Joint Study of Efficiency and the Burnham/National Joint Council which deals with salaries and conditions of service. He currently teaches at The Staff College and Sheffield City Polytechnic, undertaking consultancy work and writing on aspects of post-compulsory education.

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Introduction

The Allotment Association, the Local History Society, ICI and IBM all share a common ability to date not generally visible in colleges of further education - the production of meaningful financial balance sheets each and every year. If the new 'employment interest' governors tried to apply commonsense in reading the college accounts they could be forgiven for concluding that they or their managers should be placed in the dock at the Carey Street courts for regularly operating with monstrous budget deficits. Bankruptcy would appear to be a way of life if the annual statements were taken at face value, which of course they cannot be as they fail to credit adequately income generation. The reality is that local authorities endeavour to code many, though not all, items of expenditure but rarely recognise the key elements of funding. This paper endeavours to explore this by examining the major sources of college finance. In so doing it attempts to help colleges increasingly concerned to demonstrate accountability effectively.

Few people would dispute the reasonableness of the theory that effective management of resources calls for an adequate information base or, that in the design of that information base, financial costs have to be set against income generation. Such a position is clearly set out by the Department of Education and Science (DES) for the operation of schemes of local college management. It is not, however, the traditional mode of operation for FE colleges, nor in many colleges or LEAs is the database emerging in a form that will be familiar to employment-interest governors.

The funding of local authorities is labyrinthine in its complexity but its key elements can be outlined. This may encourage the generation of financial information which is easy to understand, and can facilitate clearer accountability, both of the colleges to their maintaining local authority, and the LEA to the electorate. Although difficulties exist in interpreting the general grant, they cannot be held as due cause for failing to provide critical information essential to any governor or manager.

The concepts of profit and loss do not apply to most public sector organisations. It has, however, been recognised for some time that performance measurement and comparison can be powerful tools in support of informed judgement. Data is now available which enables crude costs to be calculated at the institutional level in terms of income and expenditure. The public purse, or at least the local pocket within it, tends to cover all spending contingencies, sometimes without clear reference to the volume and nature of the local services which are provided. To make this information clear to key participants, including governors and managers, does not deny the right of the county or borough council to make policy. Clear and meaningful management information which relates expenditure to planned and actual services is central to policy-making and accountability.

Given that public expenditure is based on a series of well debated planning assumptions, at both the local and national levels, (many of which are written down and published), it is clearly possible to make these explicit. DES Circular 9/88 states in simple terms that:

"For the purposes of determining the general colleges budget, the Secretary of State expects that LEAs will at the minimum take account of:

Specific grant income, recoupment income and income from the Training Commission for work-related FE in addition to the general funding available through rate support grant and the rates or their successors."

Governing bodies obviously need access to such information. The pattern of negotiations changes from time to time, and with it the details of the national mechanisms as is illustrated later. This is not likely to be the focus of interest in colleges as their concern is rather with the outcome of those deliberations expressed in terms of available finance. Explanations about the planning assumptions can be improved where necessary and the data made more or less detailed in the light of experience and according to the needs of managers and governors. Credible sets of accounts which are capable of being read and understood are crucial if governors are going to be actively engaged in governing colleges and managers are to do more than administer the status quo. This predicates the need for clear and comprehensive statements about how further education is paid for, rather than a motley and partial indication of parts of the minor sources of income. This paper indicates how such statements might be derived.

Central government funding for FE: the changing scene

The mechanisms for informing decision making at the national level were being changed during 1989, and the form of the new machinery has not yet fully emerged. What follows is, therefore, a description of the pre-1990 procedures, including the resource assumptions, with an attempt to describe how they are changing. An indication is then given as to the advice proffered by the local authorities to central government with regard to FE. This section concludes with a consideration of questions commonly raised when trying to come to terms with the complexities of the processes. In essence the section explores both the political question of how much to spend (or rather the degree and grounds for year-on-year variation), and the shifting relationships between the key players of central and local government.

Central government funding through the ESGE: the pre 1990 system

Forecasting FE expenditure

The first step in the process involved annual discussions between representatives of central and local government to try to agree the cost of FE provision in the coming year on the basis of continuing present policies. This process took account of trends in recruitment, price changes and,

latterly, opportunities to increase efficiency suggested by, for example, the Audit Commission and the Joint Efficiency Study (JES) - for instance the target student staff ratio (SSR) of 11.4:1 by 1992 for FE.

This discussion was carried out over a period of months by the Expenditure Steering Group for Education Services (ESGE) as part of a wider process involving the Consultative Council on Local Government Finance. It informed the setting of public expenditure targets and the grant related expenditure (GRE) assessment.

Identifying the local authority 'need to spend' - the GRE

The allocation of grant to local authorities was a product of three factors:

(a) the GRE, which was broadly the central government estimate of what an authority needed to spend to provide a standard level of service;

(b) the capacity of the local authority (LA) to raise funds through local sources of revenue; and

(c) a penalty arrangement based on the difference between actual expenditure and GRE, designed to reduce local authority spending.

The total GRE and control totals for each service provided by the local authority were derived from the ESGE calculations, but were then influenced by government policies in relation to both overall management of public expenditure and the development of particular services.

Identifying the 'need to spend' for FE and AE

The allocation of GRE for any authority was determined by adding up the values recorded against a number of indicators multiplied by a unit value for each indicator. This in effect gives a 'need to spend' for particular services.

(a) In relation to FE the needs assessment for an LEA was based on full-time equivalent (FTE) student numbers derived from Further Education Student Record requirements (FESR) (e.g. November 1987 FESR data informed the 1989/90 GRE).

The student count excluded:

(i) all part-time and evening students other than those identified as "released" (these are counted as "adult" - see (b) below);

(ii) all HE student numbers (the HE total is distributed via PCFC);

(iii) all students assumed to be on full cost courses.

The student numbers categories were converted to FTEs - part-time day (PTD) release is 0.3 - and weighted as in **Table 1**

Group A here covered a defined range of courses that have higher costs arising from their practical nature, e.g. engineering and science. Group B courses were those which are classroom based and have lower resource implications.

Applying the weightings in **Table 1**, The unit value per FTE in 1988/89 ranged from £2566 to £3069.

(b) The GRE total for adult education was based on:

(i) people aged 18-64 in the LEA area (unit weight £8.12992);
(ii) people aged 65 and over (unit weight £8.12992).

Table 1: Conversion of student numbers categories to FTEs

	Group A	Group B	YTS "A"
Under 19	1.3737	0.9677	0.4370
Over 19*	1.0301	0.6243	

* The over 19 weight assumed that more fee income would be collected from those students than from uner 19s.

Unlike vocational FE it was not related to or influenced by the level of actual college enrolments.

(c) There was an additional factor, which reflected the level of youth unemployment.

The source of the unit weight

The unit weight for each of indicators (a), (b) and (c) above was roughly a unit cost (net of fees). It was derived by dividing the total count for each of the indicators into the GRE control total for that service, and linked to the totals produced by ESGE. But the numbers of FTE students (in the case of FE) used for the distribution of GRE between authorities are not identical with the numbers used in calculating the total to be distributed - i.e. ESGE use a projection whereas the distribution is based on actual enrolment in arrears.

It should also be noted that all part-time students not on day release (that is, those not attending in their employer's time) are assumed to be adult education. Thus the EGSE total for FE is split into two GRE totals on the basis of projected proportions of students not on day release; the FE total is distributed on the basis of previous enrolments but the adult total is distributed pro rata to the local population without any account being taken of the level of actual course provision by the college.

Sources of information

Reports on the work of the expenditure steering groups and the Consultative Council on Local Government Finance can be obtained from the Association of Metropolitan Authorities (AMA) or the Association of County Councils (ACC). A summary of the discussions relating to education was produced annually.

The ACC on behalf of the LEAs published an annual report on the RSG process including the RSG orders. It contained much information about the various indicators used in GRE.

The DE published annually the 'Green Book' - **A technical handbook on GRE** and the 'Blue Book' **How needs are assessed**

The Society of County Treasurers produced an annual report entitled **Block grant indicators** which gives further details of the make up of the elements of GRE.

Central government funding: the new machinery

In 1990 the new machinery for determining funding levels takes effect, based on the central concepts of the community charge or (poll tax) and the uniform business rate. The mechanisms for the joint review of the planned resourcing of further education has been abolished insofaras the general grant from the Exchequer and the underlying assumptions on expenditure levels were concerned. The Local Authority Associations now have a Service Working Group for Education which is charged with producing an LEA assessment of the need to spend in a given year. Thus there is no longer a joint local-central government forecast of expenditure which might record areas where there were differences of opinion between the LEA and the DES sides. After considering LEA views, the government will fix the total for grant related expenditure.

Central to the new grant system are the standard spending assessments (SSAs) which cover all local authority services and describe the amount the government assesses as being required to provide the "standard level of services efficiently". The new system is intended to indicate that if all authorities spend at the level of their SSA then the same level of community charge would apply throughout the country. Discontinuities may be expected at the point of change but, as the first analysis of the Education Standard Spending Assessment indicates, the variations are marked. Twelve LEAs would increase their spending but the other 97 would have to make cuts of up to 22 per cent for authorities other than the new Inner London boroughs. The new London authorities would face reductions ranging from 8.3 per cent (Hackney) to 71.8 per cent (City of London) or have to set the level of Community Charge substantially higher than that recommended.

The new revenue support grant is then distributed through a simplified formula which the Government does not envisage reviewing annually. Education money will be distributed in four blocks:

- pupils of primary age;
- pupils of secondary age up to 16;
- pupils and students in schools and colleges post-16 (FTE);
- other education services (nurseries, youth, adult); based on the total population (i.e. not pupils/students) aged under five and over 11.

A proportion of the money in each heading will be distributed to cover additional education needs, measured by reference to benefit claimants, single parent families and children born abroad or parents abroad. There will be some weighting for population scarcity and for area costs (e.g. in London). Higher education in the local authority colleges will be funded directly by the Polytechnics and Colleges Funding Council (PCFC), except for specific local authority HE. For the latter, students will be attributed to the providing authority rather than the home authority and will not, therefore, be subject to inter-authority recoupment.

The first report of the Local Authorities Service Working Group for Education put forward a number of significant changes relating to further education. They have to be recognised at the outset as the views of the spending bodies bidding for funding rather than any joint proposals. The starting point was a further projection in increased student enrolments, set alongside continued forecasting of raised efficiency as progress is made towards the target SSR of 11.4 based on the Annual Monitoring Survey (AMS). The outcome is a forecast that a further 1,200 FTE lecturer posts would be lost in 1990-91 with a further 2,000 in 1991-92 and 1,500 in 1992-93. This predicates a significant rise in levels of early retirement, redundancy and cuts in part-time teaching levels.

The Education Reform Act is seen as generating direct costs in terms of college management, administrative support and computerised information systems. The shortfall of £11 million in funding the projected student load of work-related FE caused problems and the bid also sought to recognise these, alongside the under-funding of repairs and maintenance of college buildings.

There is now an emerging procedure of statement and counter-statement, as the annual process of bid and allocation at national level emerges, the outcome of which is almost wholly the setting of the overall general grant to the local authority. After the local authority bids have been made, including this year a proposal for a shift from the Further Education Student Record (FESR) November snapshot to the AMS full-year count of enrolments as the measure of volume of student activity, the government departments undergo their own final round of negotiations with the Treasury. In 1989 the Secretary of State announced major funding increases, though with little related to further education. The base-line used was, however, the assessment made of the need to spend and not the inherited level of actual commitment. The local authorities have used the latter to argue a shortfall of £827 million rather than any growth. References were made, for example, to a 'significant tightening' in the student staff ratios which can only mean greater manpower reductions than those already projected.

The national analysis, even when it was jointly reviewed and the details published, was only one step in a lengthy process. It did, however, provide reasonably clear indicators of shared planning assumptions at the national level which could be fed into the local scene. To a degree this remains, but the allocation of key funding is still a matter for local determination and is closely inter-related with historical practice and the fixing of the Community Charge (and previously the annual domestic and business rates). LEAs are still not required to take account of the income generated by FE activity or its efficiency of operation. Nor need they consider any particular characteristics or policies relating to the nature of FE provision.

Other national issues

The preceding sections have outlined some of the major changes that have occurred in relation to public sector funding in general. Before considering further specific issues that arise from time to time at the national level it may be helpful to set the processes in context. The traditional focus in local authorities, (and their colleges) remains on expenditure levels and particular variations in spending when compared with planned statements. It would not seem to matter that those plans were based more on historical assumptions than actual outcomes, the latter being known only some time after the next year's plan is in operation. References are sometimes made to zero-based budgeting as a

means of raising questions of purpose, but it is as yet so alien to the culture as to be little more than a gleam in the eye. The shift to formula-led funding may nevertheless bring to the fore some relationship of budgeting to service levels. It is also possible that linkages between income generation and spending will be clarified, but these will be set at the college-LEA interface rather than that of local-central government as the former is the focus of formula-based funding under ERA.

It is difficult at this stage to forecast any form of basic cultural and attitudinal change but there is already growing recognition of student mobility and competition. This will need to be set in the context of the elected Members' expectations of increased accountability and the aspirations of colleges for greater autonomy. The focus on process efficiency led by the Audit Commission, developed by the Joint Study of Efficiency and now enshrined in national policies, is clearly another major strand. Few would doubt that FE in the 1990s will differ from the service of two, or even one decade ago. The details are often recognisable but changes at the macro-level of information supply, Member perceptions and management expectations in relation to finance are more subtle. They are nevertheless happening.

Turning to more tangible issues, some experience has now been gained of specific funding through work-related FE, the education support grants and the Local Education Authorities' Training Grants Scheme (LEATGS) for in-service training. For work-related FE, as time series data emerge enabling year-on-year changes to be seen, so too do some of the vagaries of the system, for the effects of high level aggregation and of the general grant are peeled away and the direct effects of numbers-led funding become clearer. The initial allocations of finance were calculated from the historical annual FESR data, in order to arrive at both an overall proportion of funding to be transferred to the then Manpower Services Commission (now Training Agency), and subsequently to be allocated to individual LEAs. Year-on-year comparisons from the second tranche pointed to movements on a scale not predicted and difficult to reconcile with subjective views of the scale of provision. Top-slicing to create the Training Agency's Mutual Development Fund, in which the LEAs retained a measure of steerage, has also grown but in so doing it has inreased the shift from general to specific funding.

The Training Agency's funds were created by transferring a set proportion of each LEA's GRE for FE. In subsequent years, however, the size of that fund has simply depended on what was agreed between the Department of Employment and the Treasury. It has not borne a direct relationship to FE expenditure. However the local authority associations take account of the work-related FE funds as income. These are distributed to lEAs by reference to the relevant FTE students in the FESR (reflecting thr basis on which funds were transferred from LEAs). The amount any LEA receives will depend on the overall level of funding and on the proportion of the national total of FTE students within that authority.

Adult education

The FESR distinguishes between part-time day and part-time day-and-evening students released by their employers, and non-released students. As has been indicated, the former counted directly in the GRE calculations whereas the latter count as being in the 'adult' category. Allowance for the cost of these courses has thus to be made in the national assumptions about the cost of the service. Distribution of the revenue support grant (RSG) however is not by reference to actual student numbers but by reference to the population aged over 11 as has been shown. The transference of these courses to the education post-16 block grant would not of itself make more money available and would undoubtedly cause problems. It could, however, be expected to change the distribution of RSG, creating gainers and losers, and would be a shift from a recognition at the centre of a need to spend to a reflection of actual spending.

The general pattern in recent years has been a marked shift in the proportion of total revenue raised by local taxation, as central government contributions have steadily been reduced as percentages of the total. This has been accompanied by growing constraints on overall expenditure levels. As local authority treasurers have imaginatively discovered new ways of raising finance so too have these been closed down. Nevertheless further education remains very much a publicly funded service with at least part of the central government revenue related directly to the level of activity. Slippage has, however, occurred year on year as governments have under-estimated levels of

inflation and salary and wage rises. To a degree these differences have been catered for in the shift in the following year to a new historical base, but there has been a growing gap between national government planning and the delivery costs of the local authorities. In future however the use by central government of the planned rather than the actual inherited level of commitment is likely to add to the pressure on local government finance. This, together with the gradual growth in specific funding, points to an environment in the 1990s which could be significantly differnet from that experienced to date in terms of the central government element of the funding of FE. Some of these changes are explored in the next section.

The rate fund/community charge

Colleges, as public sector institutions, cannot directly relate their service costs to profit or loss accounts, though parallels can be drawn between expenditure levels and the assumptions underpinning national sources of income. Differences can be traced, but need to be related to such fundamental issues as key purposes. Values have to be attached to quality. High costs associated with, for example, basic education or special needs can reflect overt policies. The processes of the measurement of income and expenditure and the reporting of the findings can be both illuminating and good cause for further questioning, as the impact of the financial balance directly affects the level of the community charge.

High costs associated with activities such as special needs provision, computer aided design and engineering, and innovatory outreach programmes can fall as charges to the local community, particularly if they are accompanied by fee abatements. Colleges seeking not only to balance their books but also to raise levels of efficiency and to invest in change can expect their new governing bodies to enquire from where the wherewithal is to come. As the sophistication of the users of computerised management information systems grows, so too will their ability to question. The community charge is to be the accountable factor in local authority expenditure and legislation seeks to achieve greater sensitivity to the local electorate.

Ignorance may be bliss but it is an unacceptable stance for an educational institution. Issues of quality and worth can expect to be clarified and set against cost. The unhypothecated grant has long been jealously guarded by local government, for within it lies its power of policy-making. Borough and county councils can choose to direct funds at levels above or below those set for income generation, so it is possible to identify a range of inter-relationships between key factors, such as value for money and quality standards, some of which will at least become explicit with formula funding. Indeed this is required by DES Circular 9/88.

It has long been argued that diversity is the hallmark of the further education service, characterised as it is by comprehensiveness and responsiveness. What is far less clear is how far curriculum differences influence resourcing levels at the institutional and the LEA level. Few people would argue that the funding base, in terms of gross expenditure, should be the same for a tertiary college with a high proportion of classroom based courses and a college of agriculture. The majority of colleges are, however, broadly diversified, and other than for London salary allowances, there are unlikely to be justifiably significant differences between LEAs. Arguments made, for example, for the rural effect on class sizes sits uncomfortably alongside an analysis of the average class size returns in the Annual Monitoring Survey as the evidence points to a number of such colleges managing this dimension effectively. In any event similar cases could surely be put forward for provision in areas of inner city deprivation.

Remarkably little analysis seems to have been undertaken to date of the effects on relationships between LEA policies and levels of service or efficiency of operation in colleges, even at the crude levels which take no account of planned local variables. Indeed, in some authorities there has been either active opposition to calculating the investment made in the past by central and local government taxation or an admission of inability to do so. It remains to be seen how far the requirements of DES Circular 9/88 will be met.

The practice in the past of using the historical national mean as a key starting point for reviewing future funding has afforded it a particular significance. The adoption of assumptions underpinning the needs assessment and the levying of the community charge adds further to use of comparisons between LEA and college historical unit costs and units of income. The modes of

calculation are not always precise and reliable, as any audit of the FTE student count will tend to support. Nevertheless differences between planned or actual spending levels and income assumptions can provide a basis for further review.

The Chartered Institute of Public Finance and Accountancy (CIPFA) asks all local authorities annually for their planning data relating to levels of service (FTE student recruitment) and spending. Timing and definitional problems arise with some LEAs, but analysis year-on-year indicates an overall general robustness of this data. When account has been taken of LEAs where differences of coverage may have occurred with regard to elements of cost, e.g. the inclusion or exclusion of the charges made to colleges for local authority services, or of the inclusion or exclusion of adult education students, the range of unit costs remains substantial. Analysis points to planned spending levels in a small number of LEAs being over three-quarters as much again as those of the leaner authorities.

Through the combined use of the Annual Monitoring Survey and the Further Education Revenue Expenditure Survey it is possible to calculate historical unit costs at the college level. If the polytechnics, colleges of higher education and the agricultural institutions are excluded, the range of unit costs runs from specialist monotechnics with reported unit costs for 1986/87 in excess of £4,000 and multitechnic colleges with costs of around £3,500, to colleges with unit costs of less than half that level. Differences of role and policy reflected in the mix of the curriculum and academic level of work may clearly be a factor, but at present the LEAs, and hence their institutions, are to a substantial degree funded on a common basis. It may not be surprising if, in addition to questioning why the inherited levels of colleges within an LEA can vary widely, institutions being resourced at levels 50 per cent below their apparent earning power (or indeed spending one-third above), come under scrutiny, whether by the LEA enquiring as to need and value for money or by the governors questioning adequate investment.

It is sometimes claimed that the local authority is the major provider of resources for colleges. For a substantial amount of this finance the authority is a channel through which income generated by college activity flows, with greater or lesser degrees of efficiency. Elected Members are, however, directly accountable to the local electorate for local taxation through the community charge. This new tax is now identifiable as a key source of support in its own right. Scrutiny of the relationships between the levels of funding, the national assumptions and the level, nature and quality of the college's services could encourage both greater clarity and accountability. It would, however, call for major changes in accountancy, both in simple terms of bookkeeping and in the identification of services.

Other sources of income

Inter-authority payments

Local authorities have differed in the past in their treatment of recoupment income, some crediting it openly to the colleges recruitment and serving the students generating the finance, others not. DES Circular 9/88 points clearly to the former position. The revised pattern of rates now relates student recruitment to course types by the standard student hour scheme, thus striking a flexible balance whilst seeking an administratively workable system.

The subjective classification is in terms of four major clusters which are seen as having distinctively different resource demands. Group I covers engineering, construction, catering and creative arts and design, whereas Group II is medicine and allied subjects, biological, physical, mathematical and computer sciences and agriculture. The third cluster is also drawn from FESR subjects of study and includes planning, business and administrative studies, languages, mass communication and education, with Group IV taking in social studies, humanities and all A levels.

The resourcing levels for 1989/90 draw upon national data sources, primarily the revenue outturn statistics and AMS data relating to lecturer mix. Account is taken of regional variations in terms of London cost weightings. The calculations provide a direct assessment of the projected mean cost of an FTE student when account is taken of the £429 fee charge set for payment by full-time students. The average rates are:

Group I	£3,271
Group II	£2,912
Group III	£2,563

Group IV £2,205

It should, however, be recalled that not all students pay fees, and nor do all full-time courses run for the 30 hours per week from which a factor of 95 per cent is drawn for the calculations used here.

Inter-authority payments are significant for any review of funding in at least two respects. The first is that they reveal the clear relationship between student recruitment and income generation, a calculation that is substantially more difficult to follow through the general grant mechanism. The second is the opportunity offered for every LEA and college to make immediate progress in generating full and clear accounts, which set expenditure against income. The argument that as the local authority meets the costs of outflow it, rather than the college, should be credited with income is difficult to sustain in the light of relating service levels to balance sheets.

A clearer relationship between costs and income is likely to become highly significant as funding schemes are developed. Where, for example, colleges have operating costs significantly above their income level, the difference must fall to the community charge payers of the providing authority and not the home authority of the student. Conversely if a college's courses are resourced at a standard substantially below the income level, either the institution is operating virement or the local authority is the beneficiary. For individual students infilling into otherwise viable programmes the income is almost wholly additional. Nevertheless it is conceivable that some LEAs and colleges may take a longer term view of recoupment for high cost activities and be somewhat less inclined towards multiplying provision. Market forces and civic pride have been known to come into conflict in the past, and may do so again in the future. Of perhaps greater significance is the stability of the administrative systems agreed for charging levels. The pattern set for 1989/90 is bringing in a new set of values which will no doubt provide a basis for further review and debate around the relationships regarding the income generation of both home and out-of-authority students in terms of the four programme areas.

Specific grants

The growth of interest and focus of attention on specific grant income has been a particular characteristic of the 1980s. The one million pounds transferred from the university sector in 1974 to pump-prime adult literacy has grown many fold in terms of scale and diversity of funding. Indeed it has probably raised more interest among managers in FE than any other element of finance, to levels out of all proportion to its input. This is likely to have owed as much to fashionable innovation as to immediate and direct control over spending at college level in a period when attention was often felt to be focused on contraction.

With the notable exception of the European Social Fund, the individual sources of income have tended to have been relatively small and specific when set at college or LEA level. Some such as the Home Office's Section 11 funding for the education of immigrants from the New Commonwealth and the Inner Area Programme have been on-going for many years. Others, such as the education support grants, have concentrated on short-term pump-priming. It is not the purpose of this paper to attempt to catalogue all current or past specific grants, not least because of their complexity and the transitional nature of some of them.

The growth in scale and perceptions of the shift from competition and selectivity to commonality may have reduced the prestige once attached to successful bids for specific grants. There has also been a growing recognition of extended revenue implications of many innovations at a time of continuing pressure on spending. Nevertheless cash shortages for change and innovation have encouraged colleges and their LEAs to show continued interest in these sources. The motivational effect of specific grants at department or section level can be very substantial. The innovation's shelf-life may, however, be related to the pattern of spending. Little is known of the grants' effectiveness in terms of institutional change, but strategies such as partial funding or grant-aid for the purchase of equipment and teaching materials may have a longer impact than those which merely meet the costs of temporary additional staff.

Some funding sources such as the Further Education Unit (FEU) and the Unit for the Development of Adult Continuing Education (UDACE) focus clearly on curriculum innovation. Others such as the Mutual

Development Fund (MDF) and the education

support grants (ESGs) are structured nationally to meet annually specified priorities. Where the funding is intended for programme development in the medium term as with Section 11, Inner Cities and European Social Fund aid, it has been variously applied to innovation, the maintenance of existing specific activities, and more generally to the support of local authority services. In overall terms it is difficult to gain any clear impression as to the scale of funding or its degree of permanency. The combination of rapid diversification and changes in name and form make any assessment difficult but some elements such as in-service training, ESGs and MDF grants have now become part of the changing scenery and annual budgeting processes.

Fees and other service charges

The direct payment of course fees and other customer based charges to colleges has enabled records to be maintained and to form part of the financial reporting system. In broad terms three categories of income generation can be identified; fees paid by students and their employers to publicly subsidised programmes, full-cost courses, and other self-funding activities.

(a) Fees paid by students and employers to publicly subsidised programmes

For a long time this has involved a complex pattern of checks and balances maintained nationally and regionally, concerning both open enrolment and closed courses for public bodies such as the Industrial Training Boards and the Training Agency. The fee levels set for maintained FE courses have traditionally covered less than one third of the cost of provision to those students deemed to be in scope. A degree of parity with schools has been maintained in that students of school age have generally been exempt. Exceptions do occur, usually in terms of non-vocational adult education and students who could be described in school terms as third year sixth formers. Local authorities have responded to community need and financial hardship through a variety of forms of fee remission, generally covering everyone registered as unemployed and other people in receipt of state benefits, though again sometimes with partial fees for adult education programmes. In some LEAs the introduction of new elements of fee abatement have been offset against costs in the net budget of their colleges. Unless income was treated as an influence on spending, the transaction amounted to no more than a convenient form of bookkeeping. With the introduction of formula funding and the interest expressed by some people in income targets and net budgets the effects became real. At this point there may be conflict between the unfunded social aspirations of the local authority and the hard-nosed financial assessments of the new governing bodies.

Negotiations at national level were used at one time to determine fee rates for programmes funded in part or in full by the Manpower Services Commission. These included the recycling of public funds to the remaining statutory Training Boards, with other industry-based bodies following the general pattern. YTS provision had fee charges that partially met costs directly and partly took account of fee remission policies. Adult training, on the other hand, provided a further example of a national assessment of the full cost of courses. The shift to local bargaining sets the issue clearly in the province of the LEA and its colleges, albeit with varying degrees of regional agreement.

(b) Full-cost courses

The second category of fee charges is that where full costs are expected to fall directly on the customer for either closed Professional, Industrial and Commercial Updating (PICKUP) types of activity or the recruitment of overseas students (i.e. non-EEC residents). DES Circulars from 1971, 1975 and 1977 gave standard advice in that they indicated that such provision should pay for itself including contributions to overheads and capital. The Further Education Act (1985) was designed to clarify the position further and to enable, if not encourage, the establishment of college companies as delivery mechanisms. Through the DES PICKUP initiative, the higher education National Advisory Body (NAB) and the MSC, specific pump-priming funding was made available to stimulate services to industry and commerce on a self-financing basis. It is uncertain how far, however, colleges and their LEAs have moved to full-absorbed costing techniques, let alone pricing policies. The establishment of a college company provides at least a mechanism for bookkeeping, though not necessarily full re-charges to the host institution and LEA. Individual initiatives are impressive but the overall scale of activity and, perhaps more importantly, of profit generation remains unclear. Companies exist only in a minority of colleges and

few would appear to employ more than a handful of full-time staff on temporary or permanent contracts.

(c) Other self-funding activities

Colleges have for many years offered a range of services and by-products of courses, usually at charges to cover the cost of materials but not labour or overheads. The most common are offered through training restaurants and hairdressing and beauty salons. Project work in art, design, printing and photography have also been used to generate valuable learning experiences. All share a focus on student output which is secondary to course work and marginal costings. The marketing of staff expertise through consultancy and research and development is still largely a feature of the higher education sector or of private practice by individuals separate from their college roles.

Refectory and residences trading accounts

The Council of Local Education Authorities (CLEA) produced guidelines in 1981 which provided for the separation of identified overheads and indicated that defined direct costs should be met by income. The adaptation of these conventions would appear to be uneven and in any event continues to recognise that both student refectories and halls of residence are services which receive a measure of public subsidy, unlike their direct parallels in the private sector which are often expected to be income-earning, at least as far as trainees/customers are concerned.

The CIPFA estimates and the Further Education Student Record (FESR) returns give a data base at the LEA and the college levels but need to be read with care as accounting practices may well vary in their rigour. Taken at face value they point to wide variations in outcomes between colleges and LEAs. In 1984/85, for example, local authorities projected outcomes ranging from surpluses on CLEA accounts of £93,000 to a loss of £1.15 million (by ILEA). In 1988-89 some LEAs were still losing sums in excess of £50,000 per annum on their college refectories as **Table 2** illustrates.

One response to this and other elements of the CIPFA database is to argue that it is not particularly clear, or indeed that it is simply not accurate. As the source is the LEA itself and the data collection was timed to coincide with forward financial planning such views can do little to engender confidence, especially as it involves a relatively simple exercise which had its ground rules set out almost a decade ago.

Table 2: CLEA account balances

CIPFA EDUCATION ESTIMATES 1989-90 RANGE OF CLEA ACCOUNT BALANCES

Residences Income Earning		**Refectories Income Earning**	
Staffordshire	£143,000	Berkshire	£130,001
Cambridgeshire	£136,000	Hampshire	£ 82,000
Bradford	£ 91,000	Dudley	£ 57,000
Doncaster	£ 66,000	East Sussex	£ 38,000
Wiltshire	£ 39,000	Hereford	£ 26,000
Deficits		**Deficits**	
South Tyneside	£68,000	Durham	£193,000
Hertfordshire	£72,000	Derbyshire	£231,000
Liverpool	£ 83,000	Staffordshire	£264,000
Durham	£196,000	Sheffield	£418,000
Lancashire	£507,000	Cheshire	£481,000

Commentary

This paper has attempted to explore the range of sources of funding for further education provision through maintained colleges. Very little has been published previously, and what has been published has tended to be fairly basic or unclear about variations in individual colleges. The Industry Matters information pack for new governors attempts to address the issue, and offers an illustration based on one college as shown in **Table 3**.

This illustration extends conventional practice by referring to funding from the LEA but in so doing it demonstrates the relative significance of 'college' income. The example indicates that almost three-quarters of the total income of the college is funding from the LEA. What it does not show is how much of that income existed only because of the services mounted by the college to earn the income in the first instance. Finance drawn in from the rate support grant, the no area pool and recoupment from other LEAs was a direct outcome of college services and would not otherwise have existed. The same is true for funds received for higher education programmes. The national statistics covering England and Wales collected by CIPFA point to differences between local authorities that may lie in part in variations in recording practices. Course income is differentiated in terms of mainstream at just under eight per cent of gross costs in 1987-88 and ITB, YTS and related industrial training adding up to almost 11 per cent. The combined level was thus the same as for the college used as an illustration. Income from full-cost activities is recorded separately by only half the LEAs, amounting to only one per cent of expenditure. Of a further £6 million projected as income from short courses nationally (0.4 per cent) only 10 LEAs pointed to individual levels above one per cent, and of these six did not record any other form of full-cost income at all. The consultancy earnings in the example above are high at five per cent of gross income, at a level shown in the CIPFA estimates in only four LEAS - two of which had notably entrepreneurial colleges of higher education.

The CIPFA estimates also show full and CLEA subsidised balances for residences and refectories. For the residences 28 authorities identified CLEA 'profits' and 16 were in deficit when support was given to overhead costs. Three of the LEAs reported 'profits' of over £100,000 while (excluding ILEA) one identified a loss of £98,000. When the subsidy was removed the national projected shortfall rose to £5.24 million and only two LEAs remained in profit. For college refectories the subsidy nationally was £10.8 million with three LEAs in profit. Earlier returns relating to individual colleges pointed to 216 out of a sample of 263 non-polytechnic colleges in deficit, five of them at over £400,000 per annum. On the other hand, a number were showing trading profits from the early 1980s onwards.

As has been indicated in DES Circular 9/88 the Secretary of State expects that at a minimum LEAs will need to take account of:

- rate income,
- RSG/community charge,
- recoupment,
- work-related FE fees,
- student fees,
- full-cost income,
- Polytechnics and Colleges Funding Council (PCFC) income (for higher education),
- specific grant income,

Table 3: Sources of college funding

Source	£ (1987/88 base)	%
Course income	822,600	19
Consultancy fees	204,096	5
Restaurants, refectory and food sales	182,622	4
Stationery and material sales	11,892	1
Other, e.g. hire of sports facilities, lettings	26,220	
Funding from the LEA	3,054,052	71

in calculating college budgets. Remarkably little would seem to be known of the relative significance of each at the national level or the variability for specific institutions. Attempts at analysis for three North Western LEAs suggested some consistency between them at least. The pattern, in so far as it could be explored, was as follows:

Rate income	36%
RSG/WRFE	32%
Agency fees (inc YTS)	10%
Recoupment	10%
AFE/other pools	6%
Course fees	5%
Other charges	1%

The pattern is likely to vary at college levels to reflect local factors, such as the in- or out-flow of students from outside the authority and the volume of full-cost activity. What is nevertheless consistent is the dependence on public sector funding in its various guises, and the continuing significance of the associated administrative devices. The FE system long since learned to interpret the entrails of decisions taken with regard to funding mechanisms, as they so clearly crank the system. The Burnham academic levels may be on their way out but the current package of changes has as yet to become consistent in its themes. The generation of management information linked to decision making at the national and LEA levels has yet to emerge, but it will no doubt be influential in guiding change.

Conclusion

If, as Circular 9/88 and experience and accountancy practices in the private sectors suggests, it makes good sense to set income against expenditure, that in itself will be a radical change. Colleges may come to spend less time divining local issues in isolation and look rather to planned relationships between earning power, costs and educational policies. The old debates about who is credited with extra-district income, funding for higher education and from the European Social Fund will disappear as planning moves to a sounder footing. Meanwhile there is a long way to go in establishing the database to serve effective management information systems. Value for money can only become a meaningful concept when not only is the educational value of a college's services set out but also the earning power is set alongside spending to show proper net costs.

Mission statements and policy objectives may be difficult to define and prioritise but they are clearly central to any well managed institution. Without some clarity of relationships between policy, costs and income generation it is difficult to perceive of meaningful debate and decision making. The present nonsensical calculations of the income generating powers of PICKUP activities are not only isolationist and devaluing of 'mainstream' FE, but are also meaningless with reference to full costs. Much, therefore, needs to be done but the Secretary of State has clearly indicted the direction. It is for those responsible for the financial services for which the college will now overtly pay to come forward with the information essential for effective management.

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The Mendip Papers are a new series of booklets written specially for managers in further and higher education. As managers and governors take on new responsibilities and different roles they face new challenges, whether in the areas of resource and financial management or in the pursuit of quality, the recruitment of students and the development of new curricula. The Mendip Papers provide advice on these issues and many more besides.

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